

## SAE Handbook, Lesson RK.6

### What is a Financial Statement?

#### Unit. Record Keeping

#### Problem Area. What is a Financial Statement?

#### Student Learning Objectives. As a result of this lesson, the student will...

1. Define Financial Statement
2. Identify the components of a typical Financial Statement
3. Describe why a Financial Statement is important
4. Calculate a Financial Statement



#### Time

Instruction time for this lesson: 50 minutes



#### Resources

<http://www.cals.ncsu.edu/agexed/sae/toolbox/index.html>



#### Tools, Equipment and Supplies

Writing Surface  
Overhead Projector  
RK.6.TM.A-D  
RK.6.SA.A

RK.6.PPT (There is also a PowerPoint presentation that contains the material from this lesson.)



#### Key Terms

The following terms are presented in this lesson and appear in bold italics:

- ***Current Assets***
- ***Current Liabilities***
- ***Net Worth***
- ***Non-Current Assets***
- ***Non-Current Liability***



## Interest Approach

Using either the PowerPoint presentation or RK.6.TM.A, display the graphic. Ask the students, "What do these items have in common?" All of the items are medical instruments used by a doctor to determine various aspects of your "physical" health.

### RK.6.TM.A

What do these items have in common?



These are all used by the doctor when you go for a "physical" check up.

What is the device called that we use when a person undergoes a "financial" check up?

What do we call the device used to measure your "financial" health? A **Financial Statement!**

## Summary of Content and Teaching Strategies

### OBJECTIVE 1: Define Financial Statement.

Display RK.6.TM.B and discuss.

### RK.6.TM.B

What is a Financial Statement?

- A written report of the financial condition of a firm
- A document which sets out the assets, income, expenses and debts of a person or company to allow a third person to assess that person or corporation's financial health

## OBJECTIVE 2: Identify the components of a Financial Statement



Who can identify specifically what each instrument is used for in the first graphic? One instrument measures your weight, one measures blood pressure, one measures temperature, one listens to your heart and lungs, and one is used to look in your ears and nose. Each instrument serves a specific purpose.

A financial statement has several parts or components to it, as well. It is not just one thing. Who thinks they can identify the various sections of a Financial Statement?

*Display RK.6.TM.C and discuss.*

### RK.6.TM.C

Typical Parts of a Financial Statement:

**Current Assets** – A current asset is anything that can be easily converted to cash within twelve months. Examples of current assets are money in the bank, savings bonds, cash surrender value of an insurance policy, non-depreciable inventory (fertilizer, feed, seed) and money that other people owe you.

**Non-Current Assets** – Non-current assets are items that have a useful life longer than one year and are used in the conduct of business. Items such as land, breeding livestock, and equipment are classified as non-current assets.

**Current Liabilities** – A debt that you have or money that you owe others is termed a liability. A current liability has to be paid during the next 12 months. There are basically two types of current liabilities:

1. “Notes” are short-term loans. A running account at a local farm supply store or a loan to be paid back in a month are examples of short-term notes.
2. The other type of current liability is the amount to be paid this year on a long term debt. If you borrow \$12,000 to buy a tractor and have to pay \$3,000 this year, the \$3,000 is a current liability.

**Non-current Liabilities** – Non-current liabilities are debts that will take several years to pay off. An example is a loan to buy equipment or land. The loan may extend over several years. The amount you owe minus the amount you have to pay during the current year is the non-current liability.

When all the liabilities are added and subtracted from the total assets, the remainder is the **net worth** of the individual. This is a very important financial figure.

Banks and other financial institutions can tell a good bit about the financial health of an individual or organization by examining the current and non-current assets and liabilities.

## OBJECTIVE 3: Describe why a Financial Statement is important.



What is so important about a Financial Statement?

Display RK.6.TM.D and discuss.



## RK.6.TM.D.

Why is a Financial Statement Important?

- Shows if the business is profitable
- Indicates if management is good or bad
- Identifies problem areas that may need to be addressed
- Critical for getting a loan from a financial institution

## OBJECTIVE 4: Calculate a Financial Statement.



### Activity

Now we are going to actually calculate a Financial Statement.

*Distribute RK.6.SA.A. Read the first page to the students and discuss. Have the students then place the financial numbers in the appropriate spaces on the second page. This should take about 15 minutes.*



### Review/Summary

Ask the following questions of students:

- A. What is a financial statement?
- B. Why is a financial statement needed?
- C. What are various sections typically found in a financial statement?



### Application

#### **Extended Classroom Activity:**

Have the students go to a financial institution and obtain a standard financial statement form used by the institution. Compare the various forms in class.

#### **FFA Activity:**

Show the chapter FFA budget to the students. This is basically the chapter's Financial Statement.

#### **SAE Activity:**

Have the students complete as much of the financial statement page in their SAE record books as they can.

#### **Evaluation:**

Use the student activity sheet RK.6.SA.A as the assessment for this lesson.

#### **Answers to Assessment:**

See the answer sheet for RK.6.SA.A

## RK.6.TM.A

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What do these items have in common?



These are all used by the doctor when you go for a “physical” check up.

What is the device called that we use when a person undergoes a “financial” check up?

A FINANCIAL STATEMENT

### What is a Financial Statement?

- A written report of the financial condition of a firm
- A document which sets out the assets, income, expenses and debts of a person or company to allow a third person to assess that person or corporation's financial health

# Typical Parts of a Financial Statement

**Current Assets** – A current asset is anything that can be easily converted to cash within twelve months. Examples of current assets are money in the bank, savings bonds, cash surrender value of an insurance policy, non-depreciable inventory (fertilizer, feed, seed) and money that other people owe you.

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**Current Liabilities** – A debt that you have or money that you owe others is termed a liability. A current liability has to be paid during the next 12 months. There are basically two types of current liabilities:

1. “Notes” are short-term loans. A running account at a local farm supply store or a loan to be paid back in a month are examples of short-term notes.
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**Non-current Liabilities** – Non-current liabilities are debts that will take several years to pay off. Examples are loans to buy equipment or land. The loan may be for several years. The amount you owe minus the amount you have to pay during the current year is the non-current liability.

When all the liabilities are added and subtracted from the total assets, the remainder is the **net worth** of the individual. This is a very important financial figure.

Banks and other financial institutions can tell a good bit about the financial health of an individual or organization by examining the current and non-current assets and liabilities.

### **Why is a Financial Statement Important?**

- Shows if the business is profitable
- Indicates if management is good or bad
- Identifies problem areas that may need to be addressed
- Critical for getting a loan from a financial institution



# Financial Balance Sheet and Net Worth Statement

ASSETS and LIABILITIES	Beginning of Ag Ed	End of 1st Year Dec 31	End of 2nd Year Dec 31	End of 3rd Year Dec 31	End of 4th Year Dec 31	End of 5th Year Dec 31
<b>Enter Year</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>			
<b>1. CURRENT ASSETS</b> (Items that can be quickly converted to cash or will be sold within 12 months)						
a. Cash on-hand, checking and in savings accounts	\$56.10	\$242.69	\$735.80			
b. Value of stocks, bonds and life insurance policies (if cashed in)	\$125.00	\$150.00	\$461.00			
c. Money other people owe me	-	\$70.00	\$42.00			
d. Non-depreciable inventory (see inventory page, line a)	-	\$36.33	\$115.00			
e. Total Current Assets (a+b+c+d)	\$181.10	\$499.02 -	\$1353.80	\$ -	\$ -	\$ -
<b>2. NON-CURRENT ASSETS</b> (Items that have a useful life longer than one year and are used in the conduct of business)						
a. Non-depreciable inventory (See Inventory page, line b)	---	---	----			
b. Depreciable inventory (see the inventory page, line c)	---	\$76.60	\$380.00			
c. Land	---	--	--			
d. Total Non-Current Assets (a+b+c)	\$---	\$76.60	\$380.00	\$ -	\$ -	\$ -
<b>3. TOTAL ASSETS</b> (1e+2d)	\$181.10	\$575.62	\$1733.80	\$ -	\$ -	\$ -
<b>4. CURRENT LIABILITIES</b> (Debts and bills)						
a. Accounts and notes payable	40.00	\$65.00	\$125.00			
b. Current portion of non-current debt	-----	-----	\$80.00			
c. Total Current Liabilities (a+b)	\$40.00 -	\$65.00 -	\$205.00	\$ -	\$ -	\$ -
<b>5. NON-CURRENT LIABILITIES</b>						
a. Notes and chattel mortgages (total minus current portion)	-----	\$120.00	\$155.00			
b. Real estate mortgages/contracts (total minus current portion)	-----	-----	---			
c. Total Non-Current Liabilities (a+b)	\$----	\$120.00	\$155.00 -	\$ -	\$ -	\$ -
<b>6. TOTAL LIABILITIES</b> (4c+5c)	\$40.00	\$185.00	\$360.00	\$ -	\$ -	\$ -
<b>7. OWNER'S EQUITY/NET WORTH</b> (Line 3 - Line 6)	\$141.10	\$390.62	\$1373.80-	\$ -	\$ -	\$ -
<b>8. GAIN OR LOSS IN OWNER'S EQUITY</b> (line 7 for the current year minus line 7 from the previous year)		\$249.52	\$983.18	\$ -	\$ -	\$ -

# The Financial Statement Worksheet – Page 1

Tom started agriculture classes in August of 2004. His net worth, as shown on his Financial Balance Sheet at the start of his agricultural career, was \$141.10. For his SAE program, he started a lawn care business. He borrowed some money to buy some equipment and had modest success in his business. At the end of 2005 his net worth was \$390.62. This was a gain of \$249.52 from when he started agriculture.

It is now the end of 2006. Your task is to enter the following data in the Financial Balance sheet on the next page and the determine Tom's current net worth.

1. Current Assets:

- Cash on hand and in checking - \$735.80
- Value of Stocks and bonds - \$461.00
- Money other people owe Tom - \$42.00
- Non-depreciable inventory - \$115.00

2. Non-Current Assets:

- Non-depreciable Inventory - \$0
- Depreciable Inventory - \$380.00
- Land - \$0

4. Current Liabilities:

- Accounts and Notes Payable - \$125.00
- Current portion of non-current debt - \$80.00

5. Non-Current Liabilities

- Notes and Chattel mortgages - \$155.00
- Real Estate Mortgages - \$0

Make the calculations as directed to determine if Tom had a gain or loss in his net Worth.

# Financial Balance Sheet and Net Worth Statement

ASSETS and LIABILITIES	Beginning of Ag Ed	End of 1st Year Dec 31	End of 2nd Year Dec 31	End of 3rd Year Dec 31	End of 4th Year Dec 31	End of 5th Year Dec 31
<b>Enter Year</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>			
<b>1. CURRENT ASSETS</b> (Items that can be quickly converted to cash or will be sold within 12 months)						
a. Cash on-hand, checking and in savings accounts	\$56.10	\$242.69				
b. Value of stocks, bonds and life insurance policies (if cashed in)	\$125.00	\$150.00				
c. Money other people owe me	-	\$70.00				
d. Non-depreciable inventory (see inventory page, line a)	-	\$36.33				
e. Total Current Assets (a+b+c+d)	\$181.10	\$499.02 -	\$ -	\$ -	\$ -	\$ -
<b>2. NON-CURRENT ASSETS</b> (Items that have a useful life longer than one year and are used in the conduct of business)						
a. Non-depreciable inventory (See Inventory page, line b)	---	---	----			
b. Depreciable inventory (see the inventory page, line c)	---	\$76.60				
c. Land	---	--	--			
d. Total Non-Current Assets (a+b+c)	\$---	\$76.60	\$ -	\$ -	\$ -	\$ -
<b>3. TOTAL ASSETS</b> (1e+2d)	\$181.10	\$575.62	\$ -	\$ -	\$ -	\$ -
<b>4. CURRENT LIABILITIES</b> (Debts and bills)						
a. Accounts and notes payable	40.00	\$65.00				
b. Current portion of non-current debt	-----	-----				
c. Total Current Liabilities (a+b)	\$40.00 -	\$65.00 -	\$ -	\$ -	\$ -	\$ -
<b>5. NON-CURRENT LIABILITIES</b>						
a. Notes and chattel mortgages (total minus current portion)	-----	\$120.00				
b. Real estate mortgages/contracts (total minus current portion)	-----	-----	---			
c. Total Non-Current Liabilities (a+b)	\$----	\$120.00	\$ -	\$ -	\$ -	\$ -
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<b>7. OWNER'S EQUITY/NET WORTH</b> (Line 3 - Line 6)	\$141.10	\$390.62	\$ -	\$ -	\$ -	\$ -
<b>8. GAIN OR LOSS IN OWNER'S EQUITY</b> (line 7 for the current year minus line 7 from the previous year)		\$249.52	\$ -	\$ -	\$ -	\$ -